

**REPORT TO THE CITY COUNCIL
BY THE CITY INTERNAL AUDITOR**

**SPECIAL REPORT
DEPARTMENT OF COMMUNITY DEVELOPMENT
COMMUNITY SERVICES/HOUSING AND
BUSINESS DEVELOPMENT BUREAU
HOMEOWNERS' REHABILITATION PROGRAM**

INTERNAL AUDIT REPORT SR650003-04

AUGUST 22, 2003



August 22, 2003

Councilman Monty Walford
Chairman, Shreveport City Council

Dear Councilman Walford:

Subject: SR650003-04 - Special Report: Department of Community Development, Community Services/Housing and Business Development Bureau - Homeowners' Rehabilitation Program

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
SPECIAL REPORT
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The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Bureau of Housing and Business Development is responsible for housing programs and for programs to assist new and existing businesses.

OVERVIEW OF SIGNIFICANT ISSUES

The Internal Audit Office appreciates the courtesy and cooperation extended to us by the Bureau of Housing and Business Development personnel during this limited review.

Based on the results of our limited review, we noted that internal processing improvements could be made in the way federal rehabilitation funds are being administered, which would result in improved inspections, processing times, and possibly, more citizens being served.

Following is a summary of recommendations made to further enhance the management effectiveness of the Homeowners' Rehabilitation Program. We recommend that management:

- Improve the current work specifications and scope of repair guidelines used to inspect rehabilitation projects.
- Establish a maximum amount for rehabilitation projects.
- Perform pre/post property assessments of all rehabilitated properties.
- Improve the bidding and selection process currently being used.
- Improve the processing time for requisitions, purchase orders, and change orders.
- Ensure that all appropriate office personnel are aware of funds available for rehabilitation.

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OBJECTIVES

We have completed a limited review of Community Development, Community Services/Housing and Business Development Bureau, Homeowners' Rehabilitation Program. The objectives were to determine whether:

- Rehabilitation grant funds were administered in accordance with applicable guidelines.
- The change orders for the selected projects were reasonable and in accordance with city policies and procedures.
- Proper approvals were obtained for the projects and for selected change orders.
- Goals and objectives for the program have been met.

SCOPE AND METHODOLOGY

Our review was performed in accordance with generally accepted governmental auditing standards, as defined in Section A.40 of the Internal Audit Office Operating Instructions manual. The scope of the study of internal control was limited to the general controls surrounding the specific issues addressed. The review procedures included, but were not limited to, the following:

- Reviewing the internal control environment;
- Interviewing appropriate personnel;
- Testing compliance with stated policies and procedures;
- Observing operations and ongoing activities; and
- Reviewing records, reports, and other documentation.

BACKGROUND

The Bureau of Housing and Business Development (Bureau) is responsible for managing and providing supportive services necessary to aid in programs for low income individuals, housing assistance for low to moderate income residents and programs to assist new enterprises, small businesses, and existing businesses. The Bureau is also responsible for managing funds for housing rehabilitation from the Community Development Block Grant Program, HOME and Lead-Based Paint Grant, private donations, and activities in conjunction with the Shreveport Home Mortgage Authority. These funds are received from federal and state government as well as the private sector. All funds expended by the Bureau must be utilized to meet at least one of

the U.S. Department of Housing and Urban Development's national objectives, to benefit low to moderate income persons; to eliminate slum and blight conditions; and to meet a particular urgent community development need.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

Generally, controls established by the Bureau's management over the administration of funds for the Homeowners' Rehabilitation Program were effective in ensuring compliance with the program's guidelines. We believe that recommendations contained in our audit would offer more opportunities for increased efficiency of operations and provide for substantially enhanced controls. Our recommendations primarily address operational enhancements and improvements.

1. Unreliable Work Specifications/Scope of Repairs

Criteria: Estimates of work to be completed for each home rehabilitation project should be detailed and reliable. Reliable project inspections assist management in controlling costs and reduces unnecessary and unexpected project changes.

Condition: We examined 50 Home Rehabilitation projects that either began or were completed during 2001. We noted that of the 50 projects examined, **30 (60 %)** required change orders totaling \$99,165.20, increasing the total costs of these projects by over one-third of the original estimates. For most of the items that necessitated the change orders, it appeared that the repairs involved violations of Housing Quality Standards that could and should have been identified during the initial inspection.

Effect:

- Possibility that a reduced number of homeowners were assisted.
- The appearance of unreliable inspections due to the number and amount of change orders generated.
- Potentially inefficient and untimely completion of projects.

Cause:

- Lack of a detailed assessment of repairs to be made at the beginning of the project.
- Unscheduled additions and upgrades to the rehabilitation project.
- Inadequate initial inspection.
- Inadequate knowledge of applicable code standards/inspections by independent inspectors.

Recommendation: We recommend that management:

- Evaluate the appraisal techniques used by the independent inspectors to identify needed repairs, replacement, etc.
- Develop underwriting criteria that would be all inclusive to bring the property in compliance with the City's building code (i.e. use repair history obtained from related projects).

- Ensure that the independent inspectors hired to perform the appraisals are properly trained and/or educated in the minimum code requirements needed to bring the rehabilitated property up to standards. Changes in the process used should be incorporated by the inspectors to help reduce excessive change orders and improve efficiency.

Management Plan of Action: During the initial phase of it's Model Blocks Program the Bureau of Housing and Business Development utilized outside independent rehab specialists. HUD requires that rehabilitated houses meet housing quality standards. However, homeowner occupied rehab projects have now been discontinued. In-house inspectors have been assigned to do all work specifications.

To qualify as an inspector, all Rehab Specialists must be licensed with the State of Louisiana, and must have successfully completed training on Lead Abatement/Reduction. Each Rehab Specialist must have working knowledge of federal codes - Housing Quality Standards, and local codes - Southern Building Code, with particular knowledge of HUD's guidelines, and OSHA and EPA's regulations pertaining to lead based paint, and must be able to determine the feasibility of rehabilitation and write specifications to detail the work necessary to rehab a property.

Timetable: Immediate enactment.

2. Establishment of Maximum Rehabilitation Amounts

Criteria: The cost-benefit of a project should be considered prior to committing funds to bring property into compliance with Housing Quality Standards. A project requiring an exorbitant amount of funds to bring into compliance with standards may be better suited if the owner was placed in other property, new construction, etc.

Condition: No maximum amount had been established to rehabilitate property. We noted that several projects exceeded \$20,000 in repair costs and one of these cost in excess of \$40,000.

Effect: The cost-benefit to rehabilitate the property was not justified.

Cause: No criteria had been established to identify a maximum amount to rehabilitate homeowners property.

Recommendation: Management should develop criteria to address cost-effectiveness measures to determine the best approach to aid low income homeowners (i.e. reconstruction, moving to a new or another home, etc.). Guidelines should be established which set a maximum amount for housing rehabilitation grants in order to ensure that the largest possible number of individuals are served or provided assistance.

Management Plan of Action: Costly homeowner occupied rehab projects have now been phased out. In 2002, housing had excessive HUD funds which had to be expended in that particular fiscal year. Homeowner-occupied rehab, which is a substantial rehab project, has been discontinued. Each program that is still in existence has maximum limitations. Several homes

received multiple rehab activities because they were located within the Model Blocks area. This has been modified to a lifetime maximum of \$35,000 per unit, unless totally reconstructed.

Timetable: Immediate enactment.

3. Pre/Post Assessed Property Values

Criteria: Funds spent to rehabilitate homes should be used in a prudent and logical fashion. Cost should not outweigh benefit for those properties being brought into compliance with various city codes.

Condition: The Housing Division was not assessing the cost-effectiveness of home rehabilitations for their proposed projects. We noted that neither pre- nor post-appraisals to determine the assessed value of the homes were being done on those homes being rehabilitated. Since appraisals were not being done, it was difficult to ascertain whether the decision to rehabilitate increased property values sufficiently enough to justify the magnitude of the expenditures incurred.

Effect:

- Exorbitant amounts expended on dilapidated properties to bring them into compliance with city code.
- Less funds available to aid more homeowners needing minor repairs.

Cause: No cost-benefit decision matrix had been developed to consider property value and the amount of rehabilitation required to bring the property up to city code.

Recommendation: We recommend that management develop criteria that would consider and compare assessed value of the property with the estimated amount of rehabilitation to bring the property into compliance with city code. A ratio of estimated rehabilitation cost with property assessed value should be developed to determine whether the project was cost-effective. If the rehabilitation is not determined to be cost-beneficial, Community Development/Housing Bureau should consider placing the homeowners in other programs, such as home replacement or new construction, which may better serve the needs of the homeowner.

Management Plan of Action: HUD requires that rehab projects meet housing quality standards, which may or may not bring a property to Code requirement, however, all work performed must meet minimum standards. Pre and post rehab appraisals are required on HOME substantial rehab projects. Post appraisals were conducted on substantial rehab projects. However, in the future pre and post rehab appraisals will be conducted.

Timetable: Immediate enactment.

4. Rehabilitation Project Bidding/Selection Process

Criteria: Public bids of rehabilitation projects help ensure that costs are minimized, and the process is fair and competitive.

Background: Federal guidelines allow the homeowner the right to select the contractor to perform rehabilitation repairs. The appraisal of each rehabilitation project is performed by an independent appraiser, who also includes an estimate to complete the project with the appraisal. Contractors who bid on the projects have all been certified by the Community Development Department/Housing Bureau. Each contractor is provided with a copy of the appraisal prior to submitting a bid on the project. Bids are then submitted to the Housing/Business Development Bureau to be opened, logged, etc.

Condition: The lowest responsive bidder for the rehabilitation project may not be awarded the contract. However, federal guidelines allow the homeowner the right to select the contractor without regard to the amount bid. We also noted that several of the contractors either bid close to the estimate or bid the amount of the estimate provided by the independent appraiser (which could be partly attributed to the homeowner having the right to select the contractor).

Effect:

- Integrity of the bid process is undermined since the lowest responsive bidder may not be awarded the project.
- Possible higher costs associated with the rehabilitation project.
- Homeowner having to select a contractor with little or no information available.

Cause: Federal guidelines allowing the homeowner to select the contractor.

Recommendation: We recommend that management evaluate the appropriate federal guidelines over rehabilitation funds to determine if a waiver can be received or if the lowest responsive bidder can be awarded the project.

Management Plan of Action: Due to eliminating the homeowner occupied rehabilitation program, the homeowner no longer selects the contractor. All other projects are awarded to lowest responsible and responsive bidder.

Timetable: Immediate enactment.

5. Lagging Processing of Requisitions, Purchase Orders, and Change Orders

Criteria: All documents related to projects should be processed in a timely manner. City Administrative Procedure (A.P.), "Contract Procurement," provides general guidelines for the procurement of goods and services to ensure that all facets of the purchasing process are properly coordinated.

Condition: During our review of 50 home rehabilitation projects that either began or were completed during 2001, we compared the dates indicated on the Homeowner's Agreement, requisition, purchase orders and change orders. We noted the following items:

- Significant time lapses were noted between the date the agreement was signed by the appropriate parties (homeowner, contractor, department director) and the dates indicated on the related requisition and purchase order. We noted several instances in which the processing time from inception (signing of the Homeowner's Agreement) to completion (issuance of the purchase order) exceeded more than 30 days. Additionally, we noted that in several instances the rehabilitation work had been completed prior to a purchase order being issued.
- Several projects were either started or completed prior to issuance of a purchase order. (However, it should be noted that contractors are required to start work within five calendar days after the receipt of a written Notice to Proceed.)

Effect:

- Work may be unnecessarily delayed.
- Violation of existing policies and procedures relating to purchase orders.

Cause: Cumbersome and/or inefficient processing routines.

Recommendation: We recommend that management:

- Study the internal processing routines related to the lagging processing times noted above and develop more efficient and timely practices.
- Ensure that all required documentation (i.e. purchase orders) is prepared and approved prior to the start of rehabilitation projects.

Management Plan of Action: Our internal process is to coordinate the signing of the contract with the homeowner and contractor the same day the bids are let and obtain the department signature to expedite the process. Change Orders will be approved and signed by the homeowner, contractor, and housing inspector on the project site. The Unit Manager, Bureau Chief, and Director will approve the Change Orders and they will be expedited to Purchasing in a timely manner.

The contractors are required to start work within five calendar days after the receipt of the written Notice to Proceed (recorded contract date). To eliminate projects started or completed prior to issuance of a purchase order we will extend the start days to ten calendar days after the receipt of the written Notice to Proceed. The extension of days will allow the Fiscal Unit and the Purchasing Division more efficient processing time, and unnecessary penalties to the contractor.

Timetable: Immediate enactment.

6. Funds Availability

Criteria: Ideally, financial information regarding program budget and balances should be known by those individuals responsible for administering the program. Knowledge of this information should help ensure compliance with policies and improve customer service.

Condition: Several applicants were informed that they had been approved for home rehabilitation. However, these applicants were subsequently contacted and told that their request had to be delayed due to a lack of program funds. We noted during fieldwork that the Loan Officer for the Rehabilitation Program was unaware of the program balance prior to certifying and notifying an applicant that their request had been approved.

Effect:

- Bad publicity.
- Loss of confidence in the program.

Cause: Communication problems and/or hindrances prevented the Loan Officer from having knowledge of program funds available.

Recommendation: We recommend that management correct any communication conflicts that prevent the Loan Officer from knowing the available balance on hand prior to contacting applicants for home rehabilitation.

Management Plan of Action: This recommendation has been shared with staff, particularly the applicable individuals responsible for the rehab activities. Better communications plus report sharing will eliminate this concern.

Timetable: Immediate enactment.

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